Canadian Superior Oil Ltd. Annual Report 1975

Canadian Superior Oil Ltd.

Incorporated under the Laws of Canada

Head Office: Three Calgary Place,
355 Fourth Avenue S.W.,
Calgary, Alberta T2P 0J3

Directors

Officers

Auditors

PRICE WATERHOUSE & CO.,
Calgary, Alberta

Transfer Agents

THE ROYAL TRUST COMPANY
Calgary, Alberta; Vancouver, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Montreal, Quebec; Saint John, New Brunswick; and Halifax, Nova Scotia.

THE BANK OF NEW YORK
New York, New York 10015

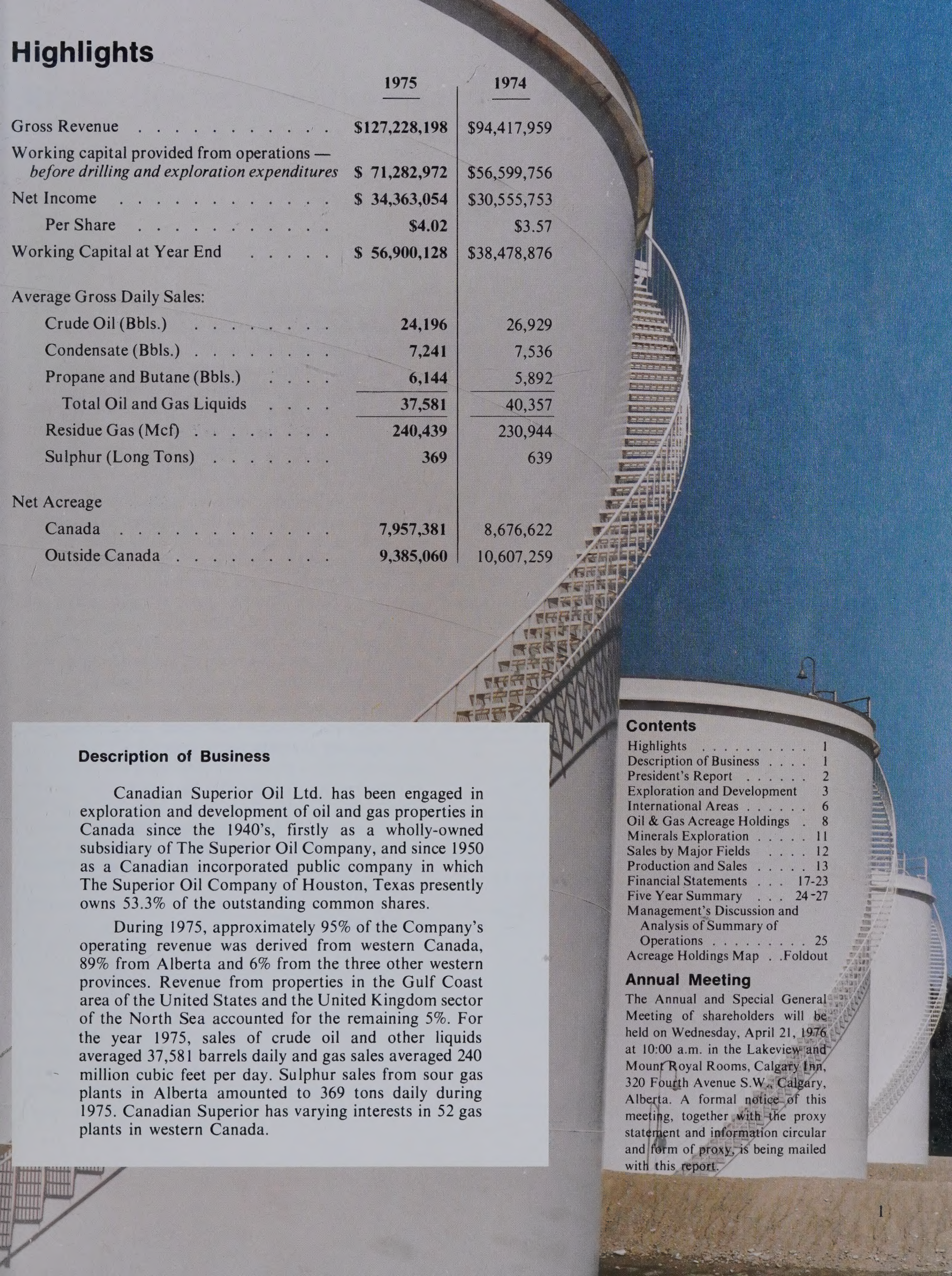
Registrars

THE ROYAL TRUST COMPANY
Calgary, Alberta; Vancouver, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Montreal, Quebec; Saint John, New Brunswick; and Halifax, Nova Scotia.

FIRST NATIONAL CITY BANK
111 Wall Street
New York, New York 10015

Stock Exchange Listings

AMERICAN STOCK EXCHANGE (CDS)
TORONTO STOCK EXCHANGE (CAS)



Highlights

	1975	1974
Gross Revenue	**$127,228,198**	$94,417,959
Working capital provided from operations — *before drilling and exploration expenditures*	**$ 71,282,972**	$56,599,756
Net Income	**$ 34,363,054**	$30,555,753
Per Share	**$4.02**	$3.57
Working Capital at Year End	**$ 56,900,128**	$38,478,876
Average Gross Daily Sales:		
Crude Oil (Bbls.)	**24,196**	26,929
Condensate (Bbls.)	**7,241**	7,536
Propane and Butane (Bbls.)	**6,144**	5,892
Total Oil and Gas Liquids	**37,581**	40,357
Residue Gas (Mcf)	**240,439**	230,944
Sulphur (Long Tons)	**369**	639
Net Acreage		
Canada	**7,957,381**	8,676,622
Outside Canada	**9,385,060**	10,607,259

Description of Business

Canadian Superior Oil Ltd. has been engaged in exploration and development of oil and gas properties in Canada since the 1940's, firstly as a wholly-owned subsidiary of The Superior Oil Company, and since 1950 as a Canadian incorporated public company in which The Superior Oil Company of Houston, Texas presently owns 53.3% of the outstanding common shares.

During 1975, approximately 95% of the Company's operating revenue was derived from western Canada, 89% from Alberta and 6% from the three other western provinces. Revenue from properties in the Gulf Coast area of the United States and the United Kingdom sector of the North Sea accounted for the remaining 5%. For the year 1975, sales of crude oil and other liquids averaged 37,581 barrels daily and gas sales averaged 240 million cubic feet per day. Sulphur sales from sour gas plants in Alberta amounted to 369 tons daily during 1975. Canadian Superior has varying interests in 52 gas plants in western Canada.

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Annual Meeting

The Annual and Special General Meeting of shareholders will be held on Wednesday, April 21, 1976 at 10:00 a.m. in the Lakeview and Mount Royal Rooms, Calgary Inn, 320 Fourth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with the proxy statement and information circular and form of proxy, is being mailed with this report.

President's Report

To The Shareholders:

Record earnings and an aggressive exploration program highlighted the 1975 year. Net income increased to $34.4 million, or $4.02 per share, compared to $30.6 million, or $3.57 per share, in 1974. Cash flow increased $14.7 million to $71.3 million, providing the necessary funds for your Company to continue to finance its expanded activities with internally generated funds.

The tempo, but more significantly, the costs of the Company's exploration and drilling programs in Canada and internationally increased markedly. Worldwide expenditures incurred for drilling and exploration rose 73% to $28.9 million in 1975.

Production and sales of oil, gas and liquid products did not change materially from the prior year. Operating revenues, however, increased 38% from $87.5 million in 1974 to $120.6 million in 1975 as detailed elsewhere in this report.

At the same time, payments to all levels of governments again rose substantially. Income taxes, royalties, mineral taxes, lease rentals and property taxes totalled $73.3 million, an increase of 57% over the prior year.

Employees

The Company now has 423 permanent employees and the Board of Directors commends these people for their dedicated contributions toward the Company's continuing progress.

Outlook

Canada, from its earlier position of self-sufficiency, has become a net importer of crude oil and unprecedented infusions of capital will be required to alleviate the growing dependence on imported oil. In this high-risk industry, with the rapidly escalating costs of exploration and development, it is essential that satisfactory rates of return be assured through a reasonable division of income between government and industry.

The past year has seen a gradually improved understanding between the producing industry and both levels of government. This is evidenced by royalty and tax modifications and improved incentive programs which have greatly increased the tempo of exploration activity, particularly in Alberta. There are, however, still major hurdles to be crossed in formulating a consistent and long-term regulatory environment in Canada which will restore and maintain investor confidence.

We believe that, given the proper economic assurance, industry will meet the challenge of replacing our vital energy reserves.

ON BEHALF OF THE BOARD,

G. E. Feltmeyer

President

March 3, 1976.

Exploration and Development

Canada

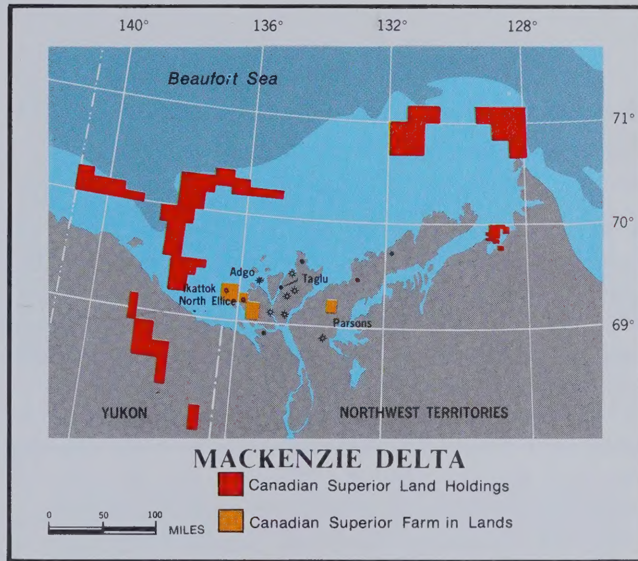
Higher oil and gas prices, coupled with improved exploration incentives, have resulted in a revival of exploration activity. Responding to the improved economic climate, your Company is currently engaged in an accelerated drilling program in Alberta.

During 1975, the Company participated in the drilling of 58 exploratory wells in Canada, of which 25 resulted in natural gas discoveries, four resulted in oilwells and 29 were abandoned. Seventy-three development wells were drilled during the year, 65 of which were productive of oil or gas and eight were unsuccessful.

Mackenzie Delta

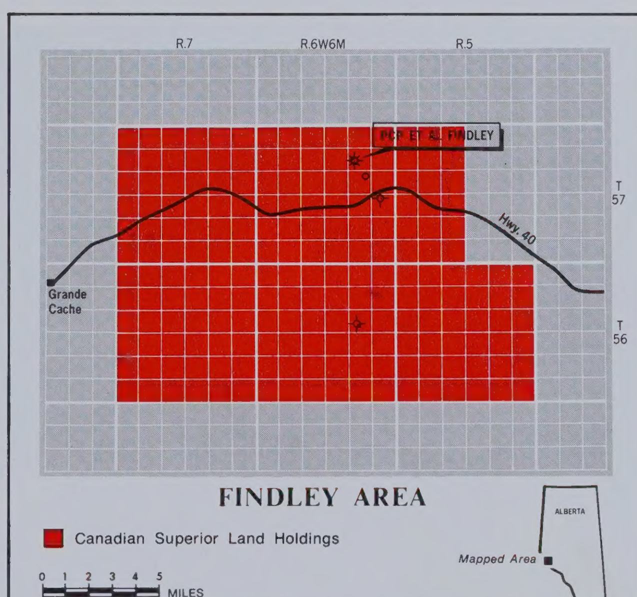
A comprehensive seismic exploration program was conducted, during 1973 and 1974, in the Mackenzie Delta region of the Northwest Territories to evaluate future exploration plays. In the third quarter of 1975, by virtue of two farmin agreements, Canadian Superior expanded its acreage position in this area. The "Delta 5 Group", in which Canadian Superior is an equal partner (20%), entered into a farmin agreement with Imperial Oil Limited involving three areas in the Beaufort-Mackenzie Delta area. The Group has committed to drill a test well on each of the prospect areas to earn an interest therein and has options to earn additional interests by further drilling. If all options are exercised, the Group's interests in the three blocks, containing 186,870 permit acres, will vary from 45% to 55%. The first commitment well, located on a man-made island in Mackenzie Bay, was spudded on October 7, 1975 and was abandoned at 12,500 feet on February 27, 1976. The second commitment well will commence in the spring of 1976 and the third in late 1976 or early 1977.

Canadian Superior, together with three of the four "Delta 5" partners, also concluded farmin arrangements with Standard Oil of British Columbia Limited in the same area. The farmees have committed to drill a test well to earn interests varying from 30% to 50% in 22,760 permit acres. The earning well which was spudded on October 22, 1975 encountered no hydrocarbons and is being abandoned at 11,500 feet.



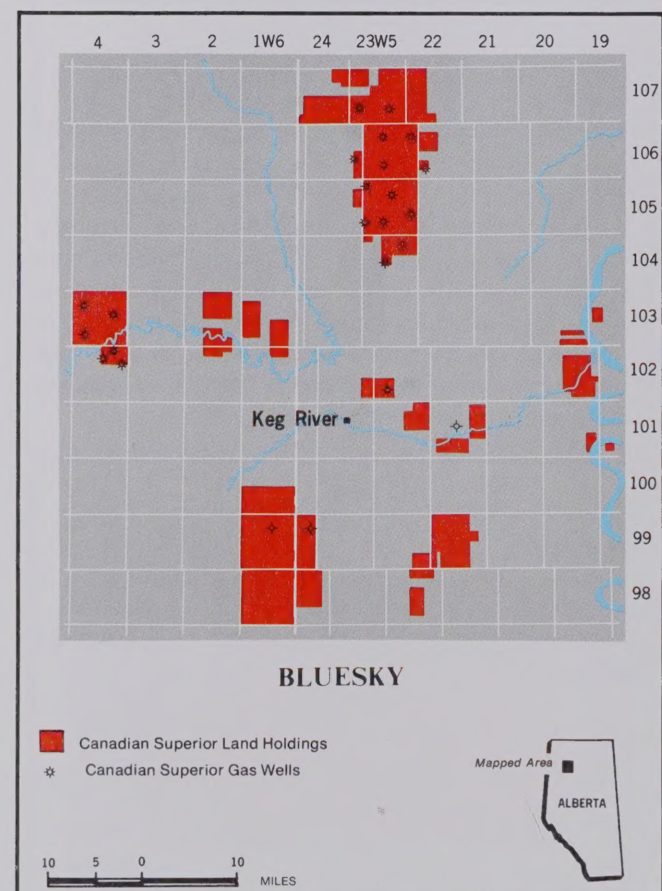
Findley

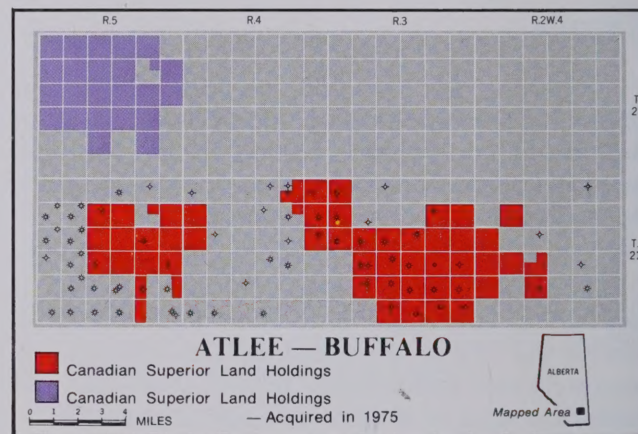
In the western Alberta deep basin area, near the Town of Grande Cache, a significant Triassic and Mississippian gas discovery has been made. Further drilling is planned to determine the size and potential of the indicated gas reservoir. The first followup well commenced drilling on February 3, 1976. Canadian Superior has a 35% interest in this area.



Bluesky Shallow Gas — Bede Area, Northern Alberta

Shallow drilling for Bluesky formation gas has found substantial reserves in a widespread area of northern Alberta where your Company has considerable acreage under lease. Six gas wells were completed during 1975 in this region and 15 more were drilled during January and February, 1976. Our interests in these wells vary from 35% to 100%.





Atlee Buffalo

Production from shallow gas wells, which were drilled during 1973 in the Atlee Buffalo area in southeastern Alberta, commenced late in the second quarter of 1975 with the completion of a dehydration compression plant. Canadian Superior owns a 15% interest in these facilities. A multi-well development program in this area commenced in June, 1975 and by year end an additional 13 shallow gas wells, in which the Company has varying interests, were completed. It is expected these wells will be tied into existing plant facilities during the second quarter in 1976. Further development drilling is underway.

On a separate wholly-owned block of land to the west, a shallow gas discovery was made in 1975. Two followup gas wells have been drilled and further development drilling is planned for 1976.

In the same area, another block of land to the north, containing shallow gas rights only, was acquired in 1975. This acreage will be evaluated during the current year.

Enchant - Eyremore

Two wells drilled in the Enchant-Eyremore area of southern Alberta, in which the Company has a 39% and 59% interest, discovered gas reserves in Cretaceous sands. Additional drilling is planned to further develop and evaluate this pool.

Francis, Wandering River, Charron

In northeastern Alberta, seven successful gas wells were drilled in the shallow Cretaceous sands and Paleozoic subcrop play. Our interests in these wells vary from 25% to 100%. Development drilling will continue in this area during 1976.

Crimson Lake - Ferrier

In west central Alberta, in the Crimson Lake (Radial) area, Canadian Superior has varying interests in three wells drilled in a recently developed Cardium gas trend. Further drilling is underway.

Canadian Arctic

A well on Melville Island in the Canadian Arctic, drilled by Panarctic under a farmout agreement at no cost to your Company, was abandoned in June, 1975. Your Company has no further exploration plans in this area for the immediate future.

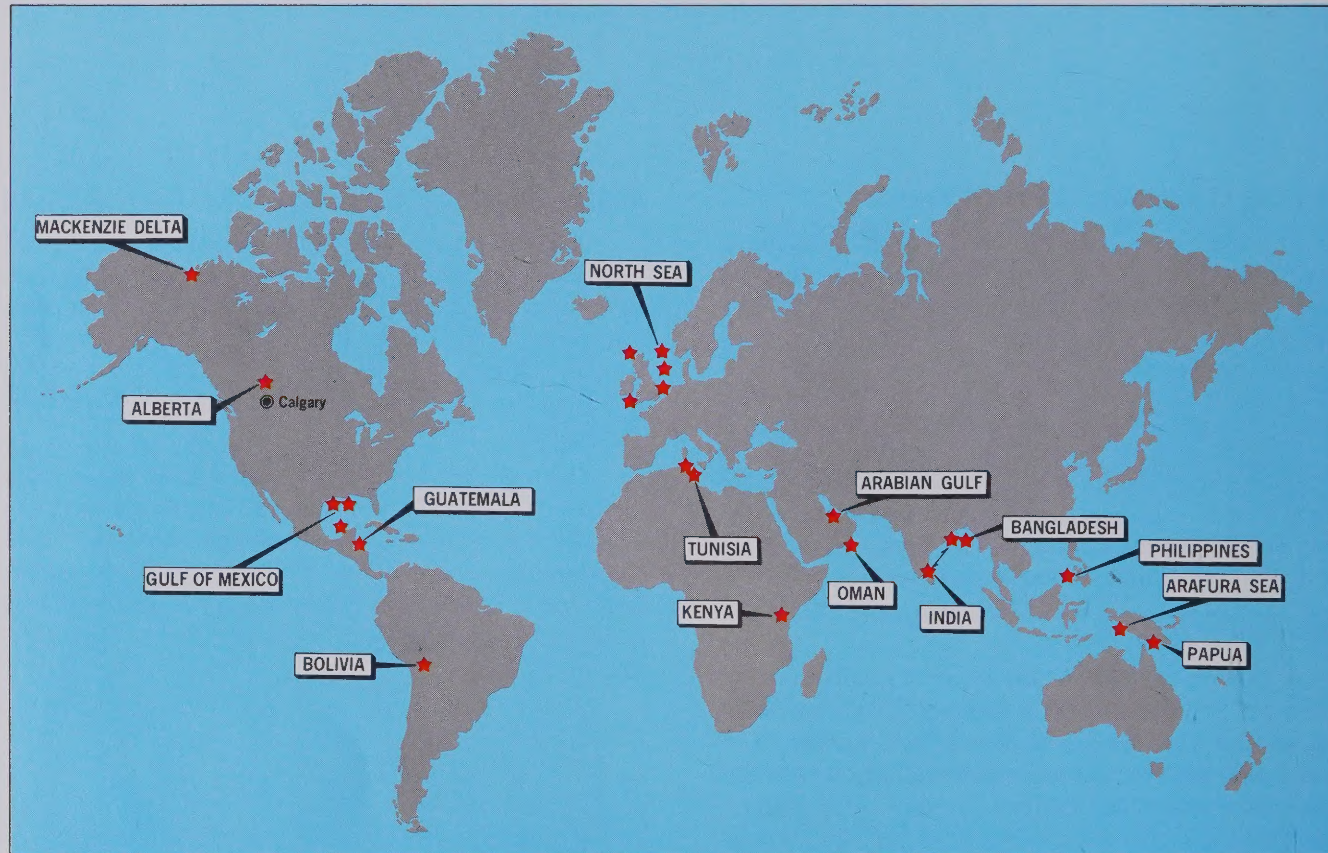
Other Areas

A Cardium gas well (25%) has been completed at Niton in west central Alberta, two gas wells (50%) were completed at Davey Lake in central Alberta and three gas wells (100%) were drilled in the Farrow area of central Alberta. In the Algar Field of northeastern Alberta, three additional gas wells (50%) have been completed.

Drilling continued in the Turin area of southern Alberta during 1975 and resulted in one gas well, ten oilwells and two dry holes. Development drilling, in the Garrington area of central Alberta, continued during the year resulting in seven oilwells. Solution gas from these oilwells is now being processed through facilities completed in 1975.

Geophysical Operations — Vibrator Units

CANADIAN SUPERIOR'S WORLD-WIDE ACTIVITIES



International Areas

During 1975, Canadian Superior continued to expand its worldwide operations, building on the solid base established in previous years. During 1976, further effort will be made to participate in exploration projects in geologically-promising areas throughout the world.

United Arab Emirates - Arabian Gulf

Four oilwells have now been successfully drilled on the Arzanah structure, offshore Abu Dhabi, and a decision will soon be made as to whether to proceed with commercial development of the field. Canadian Superior has a 10% working interest in this project.

In September, 1975, drilling commenced on the offshore well, RAK #1, in Ras Al Khaimah and is currently nearing total depth. Your Company will earn 8.4% in the offshore territory of the Emirate.

Following a recent seismic program in Umm Al-Qaiwain, where the Company holds a 25% interest in the offshore area, an exploratory well commenced drilling on January 28, 1976.

Oman

In the Arabian Sea, off the coast of Oman, your Company has earned a 7½% interest in an offshore permit for assuming 12½% of the costs of the first well, Masirah #1, which was abandoned after an extensive testing program. A second well will be drilled during the last half of 1976 to test another seismic structure.

India

Canadian Superior, together with two other Canadian companies, recently signed a contract with India's Oil and Natural Gas Commission to explore in the Indian portion of the offshore Cauvery Basin, which is located in the Palk Strait between India and Sri Lanka (Ceylon). An extensive marine seismic program is underway on the permit and, based on the results, an exploratory well may be drilled in the latter half of 1976. Your Company's interest in this project is 21.67%.

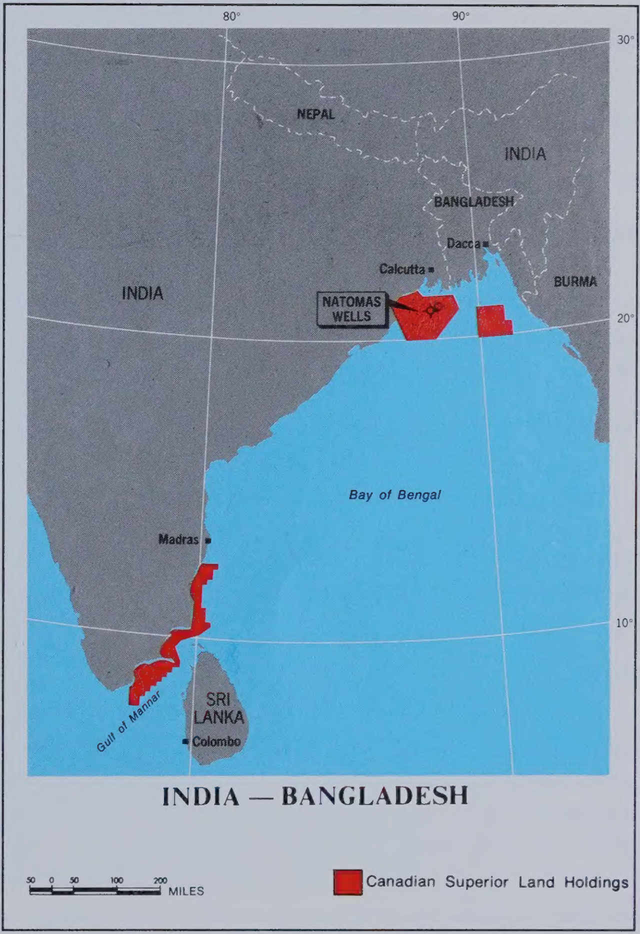
On a large permit in the northwestern part of the Bay of Bengal, offshore India, the first of two deep test wells was drilled and abandoned on February 20, 1976. The second well commenced drilling on February 23, 1976. Canadian Superior will earn a five percent interest in this permit in return for assuming approximately 7½% of the cost of the first two wells.

Bangladesh

In our contract area in Bangladesh, a 4,000-mile detailed marine seismic program has been completed. A test well must be drilled in the latter part of 1976 if we are to maintain our interest in the contract area.

Guatemala

Offshore Guatemala, your Company is participating in the drilling of a second well, a deep test in the Gulf of Honduras, off Puerto Barrios. A 12½% interest in the contract area will be earned by Canadian Superior in return for paying 16% of the costs of this well. The initial test well was drilled and abandoned in the first quarter of 1975.



INDIA — BANGLADESH

Papua New Guinea

A portion of the permits in the Gulf of Papua, in which Canadian Superior holds a 15% interest, has been farmed out to a major oil company which is presently conducting marine and shallow water seismic surveys to supplement our extensive seismic rework program. Under the terms of the agreement, the farmee company must drill an offshore test well to earn an interest in the jointly-held permits.

Bolivia

Seismic work on two permits in Bolivia, in which the Company has a 25% working interest, is now essentially complete and interpretation of data is in progress. A test well is planned for later in 1976.

Tunisia

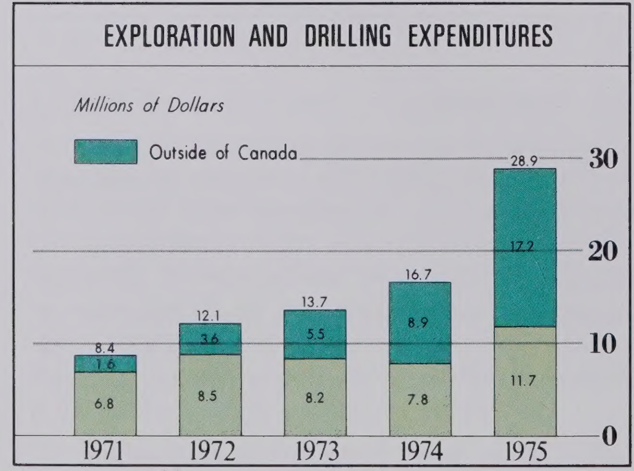
An offshore test well is scheduled to be drilled later this year on jointly-held acreage in the Gulf of Hammamet. Canadian Superior's interest in this test will be 15%.

Philippines

Canadian Superior's interest in the Sulu Sea area of the Philippines was farmed out to another operator which earned a 50% interest in the contract area in return for drilling a well. The well was spudded January 12, 1976 and was abandoned on February 21, 1976 at 10,000 feet.

Kenya

A major oil company has conducted a 1,000-kilometer seismic program on our jointly-held Kenyan permit under the terms of a farmout agreement. The program is now being interpreted and future activity will depend on these results.



Oil and Gas Acreage Holdings

	Gross	Net
CANADA		
Producing leases	817,560	454,089
Exploratory acreage:		
Western Canada	5,478,731	4,013,141
Beaufort Sea	4,134,266	1,818,967
Mackenzie Delta — onshore	492,343	246,172
Yukon and Northwest Territories	1,296,370	388,838
Arctic Islands	1,129,228	486,020
East Coast	2,908,341	550,154
Total Canada	16,256,839	7,957,381
INTERNATIONAL		
Producing leases:		
United Kingdom — North Sea	180,927	6,030
U.S.A. — Gulf Coast Area	20,760	1,138
Exploratory acreage:		
Arabian Gulf	3,896,115	353,779
Australia	1,643,500	288,763
Bangladesh	2,986,880	1,493,440
Bolivia	4,906,559	1,226,640
India	8,445,772	1,829,945
Indonesia — Arafura Sea	45,271,687	1,655,040
Kenya	6,669,000	1,111,500
Papua New Guinea	5,799,733	869,960
Philippines	2,594,655	167,859
Tunisia	1,519,225	227,844
United Kingdom — North Sea	488,502	30,472
U.S.A. Gulf Coast Area	222,992	27,483
Other countries	625,594	95,167
Total International	85,271,901	9,385,060
TOTAL ACREAGE	101,528,740	17,342,441

NORTH SEA AREA

North Sea

Under a farmin agreement Canadian Superior stands to earn a 5% interest in Block 21/2 in the United Kingdom sector of the North Sea where two exploratory test wells were drilled during 1975. One resulted in an oil discovery; the other, in a gas condensate discovery. Further evaluation will be necessary before commercial viability can be established. An exploratory test was also drilled on Block 205/26 (4%) west of the Shetland Islands and subsequently abandoned in July, 1975.

In the Netherlands sector of the North Sea, a Rotliegendes gas discovery was drilled on Block K-12 (3-1/3%) at no cost to Canadian Superior. Commercial viability has not been established and another deep test is called for under the farmout agreement.

Expansion of production facilities in the Hewett and Leman fields continued during 1975. The Company's share of revenue from these fields amounted to $1.3 million, an increase of 19% over 1974, due largely to modest price increases.

United States - Gulf of Mexico

During the past year, the Company participated in 12 exploratory tests in the Texas portion of the Gulf of Mexico. Two of these, Mustang Island Block 831 (15%) and High Island Block A-342 (6%), encountered hydrocarbon-bearing sands which may prove to be of potential significance. Additional drilling is planned during 1976.

Production platforms have now been installed on High Island Blocks A-323 (1.5%), A-520 (1.5%) and 110 (0.75%) and development drilling is well underway.

At Federal lease sales during 1975 in the Texas offshore area, the Company acquired interests varying from 0.75% to 40% in 14 lease blocks. Canadian Superior's share of these acquisition costs amounted to $6.2 million.

Production revenue from Brazos Block A-1 (5%) amounted to $413,000 in 1975, an increase of 16% over 1974.

In the offshore Louisiana area, Eugene Island Block 296 (5%) and 306 (5.6%) fields are now fully developed and combined revenue from production amounted to $4.7 million in 1975, an increase of 57% over 1974.

Jack-up Drilling Rig in the Gulf of Mexico

Installation of production facilities on South Marsh Island Block 243 (10%) and 249 (7%) fields encountered delays and initial production is now anticipated late in 1976.

During 1975, your Company was successful in jointly acquiring interests in three blocks at Federal lease sales in offshore Louisiana at a cost to the Company of $625,000. They comprise West Cameron Block 98 (15%) and 99 (20%) and West Delta Block 119 (5%).

In summary, your Company now has an interest in nine commercial fields in the Gulf of Mexico; five in Texas and four in Louisiana. Of these, only two in Louisiana and one in Texas are on production. The remainder are at various stages of development.

During the past year, the Company participated in 16 offshore exploration wells resulting in four discoveries of potential significance. A substantial exploration drilling program is continuing during 1976.

Minerals Exploration

During 1975, your Company was involved in mineral exploration in Canada, the United States, Ireland, Australia and the Philippine Islands and preliminary investigations were made in other countries. In Canada and the United States work was initiated or continued on twenty-eight projects in which the Company holds mineral rights. Sixteen of these prospects represent property acquisition through staking or government permits. Twelve are properties acquired by option or lease. Drilling was carried out on eleven of the above mineral properties.

Two of the Company's properties were farmed out to other operators.

The Company has a 16.7% interest in the Minto property in the Yukon, on which diamond drilling has outlined a copper orebody. A 22.25% interest is held in the DeLamar silver-gold mine in Idaho which is scheduled to start milling early in 1977 at 1,800 tons a day. A 50% interest is held in an option on the Big Onion property in British Columbia on which preliminary drilling has indicated potential for a porphyry-copper deposit.

During 1975, Canadian Superior's share of expenditures on mineral exploration totalled $1.2 million.

Northern Prospector's Camp

1975 Sales by Major Fields and Areas

	Oil (Bbls.)	Condensate (Bbls.)	L.P.G. (Bbls.)	Gas (Mcf)	Sulphur (L. Tons)	Operating Revenue
CANADA						
Alberta						
Harmattan	2,214,330	1,090,808	930,491	16,636,706	32,701	$ 34,579,153
Crossfield-Carstairs	35,956	303,585	316,911	20,917,359	79,525	17,443,658
Ferrier	527,218	234,273	483,232	9,413,518	—	10,450,648
Innisfail	1,216,345	47,534	—	1,015,187	2,969	8,525,356
Pembina	1,006,030	7,302	6,322	680,425	—	5,446,655
Kaybob	—	431,024	229,674	1,980,922	15,341	4,411,938
Clive	474,789	—	—	649,260	—	2,891,743
Lone Pine Creek	—	108,358	—	5,215,189	653	2,882,150
Olds	188,806	19,642	31,429	815,101	—	1,929,942
Garrington	66,234	45,705	48,118	1,830,578	—	1,868,311
Sylvan Lake	18,659	27,741	42,973	1,619,692	—	1,695,797
Minnehik Buck Lake	—	29,959	—	2,137,492	—	1,588,055
Cherhill-Alexis	296,805	10,506	—	173,199	—	1,373,892
Swan Hills	255,196	1,842	14,143	16,647	—	1,271,791
Gilby	17,098	21,060	27,419	1,403,801	—	1,076,091
Nevis	26,025	18,408	12,361	1,070,668	1,877	1,016,908
Other	945,315	93,016	41,918	7,307,434	1,558	9,293,583
	7,288,806	2,490,763	2,184,991	72,883,178	134,624	107,745,671
Saskatchewan						
Steelman	403,363			167,895		1,421,504
Weyburn	310,099			—		1,046,504
Other	404,036			236,736		1,561,337
	1,117,498			404,631		4,029,345
British Columbia	310,006			3,079,779		1,870,895
Manitoba	115,248					542,489
CANADA	8,831,558	2,490,763	2,184,991	76,367,588	134,624	114,188,400
INTERNATIONAL						
United Kingdom		10,429		4,318,207		1,314,026
United States		141,618	57,656	7,074,506		5,110,029
GRAND TOTAL	8,831,558	2,642,810	2,242,647	87,760,301	134,624	$120,612,455

Note: Volumes are stated as gross before royalties; operating revenue is expressed as net after royalties and mineral taxes.

Production and Sales

LPG Storage Tanks — Harmattan Area Plant

Crude Oil and Condensate

Sales of crude oil and condensate averaged 31,437 barrels per day during 1975, down 9% from the previous year. This decline was primarily due to a reduction in export demand.

Price controls of crude oil and condensate remained in effect through 1975 at the producer level. Federal and provincial governments permitted a price increase of $1.50 per barrel to approximately $8.00 per barrel effective July 1, 1975. Condensate, which previously commanded a premium over the highest priced crude, lost its advantage when a surplus developed during the year.

The Federal Government reduced export allowables of crude oil and condensate to the United States from 750,000 barrels daily to 510,000 barrels on January 1, 1976. A further reduction is expected later in 1976 to bring the average down to 460,000 barrels per day for the year. To partially offset this loss of market, it is anticipated that approximately 250,000 barrels of crude per day will begin moving to Montreal sometime in the third quarter of 1976 via the new Interprovincial Pipe Line extension.

The Federal Government's export tax, initiated in late 1973 on western Canadian crude oil and condensate exported to the United States, was continued throughout 1975. This export tax constitutes the difference between the fixed Canadian price and the prevailing international price and amounted to $4.50 per barrel at year end. The proceeds from this tax are used to subsidize the imports of higher priced crude oil into eastern Canada. The proposed cutbacks in exports will put pressure on the Canadian Government's oil price equalization plan and may result in another upward adjustment of Canadian crude oil prices on July 1, 1976.

Liquefied Petroleum Gases

Propane and butane production increased 4% over 1975 to a daily average of 6,144 barrels per day. Prices continued relatively strong although sales during the third and fourth quarters were lower than normal due to unseasonably warm weather in the areas traditionally served by Canadian producers. The Company's 50% interest in Hardisty underground storage facilities has provided the flexibility required to cope with this situation.

Natural Gas

Total natural gas sales from Canadian and international sources increased four percent during the year to an average of 240 million cubic feet per day. Canadian production represented 87% of the total sales and increased three percent. United States and United Kingdom production increased 13% over the prior year. Significant price increases, particularly in Canada, in late 1974 and during 1975 resulted in a 120% improvement in revenue from this source over 1974.

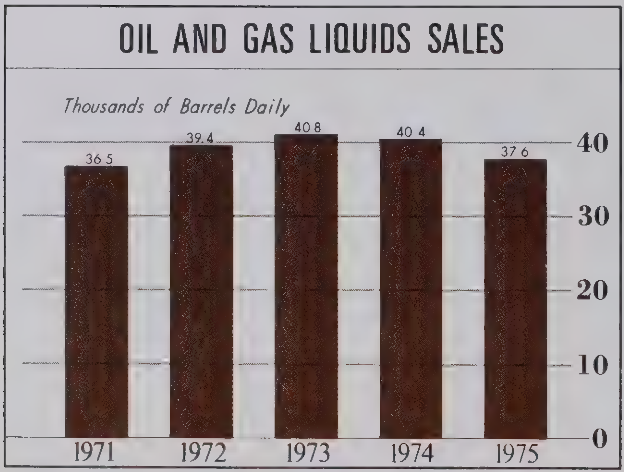
Effective November 1, 1975, a combination of federal and provincial legislation established wellhead prices in Alberta at approximately 75¢ per Mcf, excluding export rebates.

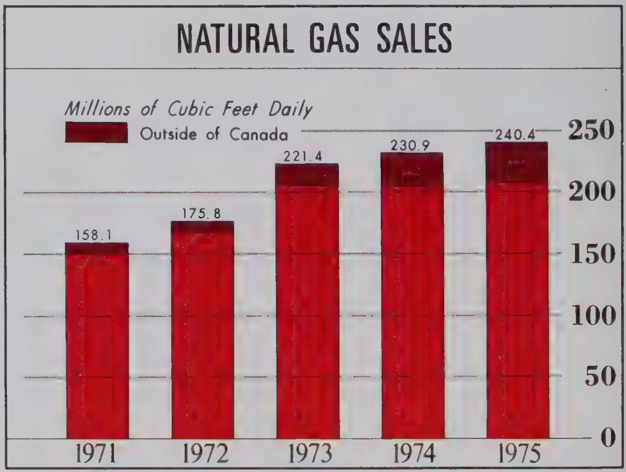
On January 1, 1975 the border price of Canadian natural gas exported to the United States was established by the Federal Government at $1.00 per Mcf. The export price was subsequently raised to $1.40 per Mcf on August 1, 1975 and to $1.60 per Mcf on November 1, 1975. From January to November, your Company received varying rebates on a portion of the difference between the domestic and export prices; however, effective November 1, 1975 new Alberta legislation required all export rebates to be distributed equitably on all gas sales and the Company is currently receiving approximately 23¢ per Mcf additional revenue from such rebates.

Sulphur

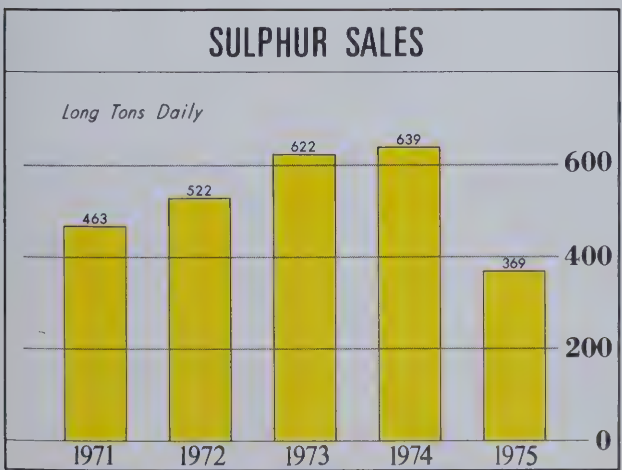
Sulphur sales volume was down substantially from 1974 due to decreased demand for fertilizer in both the North American and offshore markets. North American liquid sulphur prices improved over 1974, while offshore bulk sulphur prices declined during the year.

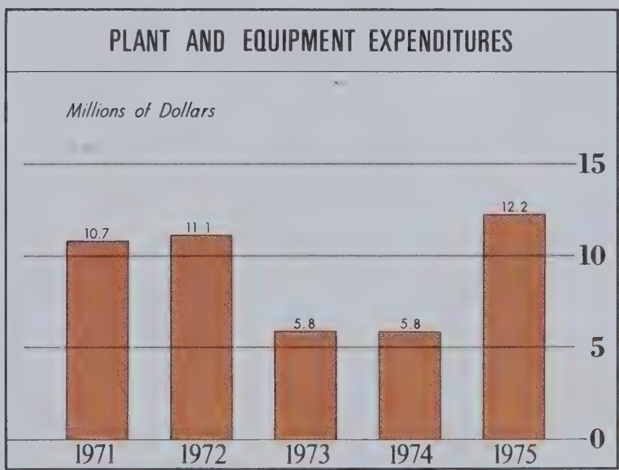
Your Company has increased its participation in the Agri-Sul Fertilizer Plant from 33% to 50%. This plant is now on stream and should initially manufacture 50,000 tons of granular water-degradable sulphur fertilizer per year.





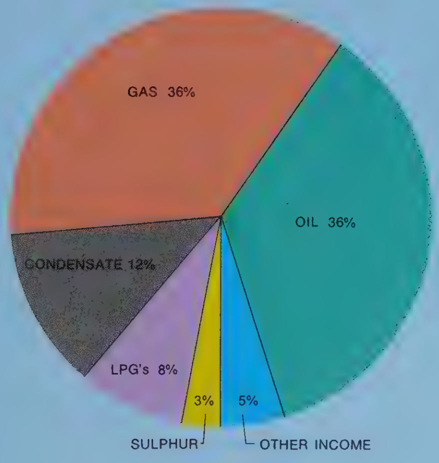
LPG Recovery Facilities — Harmattan Area Plant



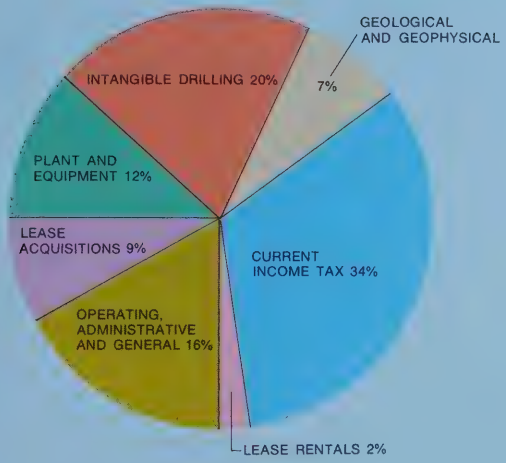


Night Operations at Harmattan Area Gas Plant

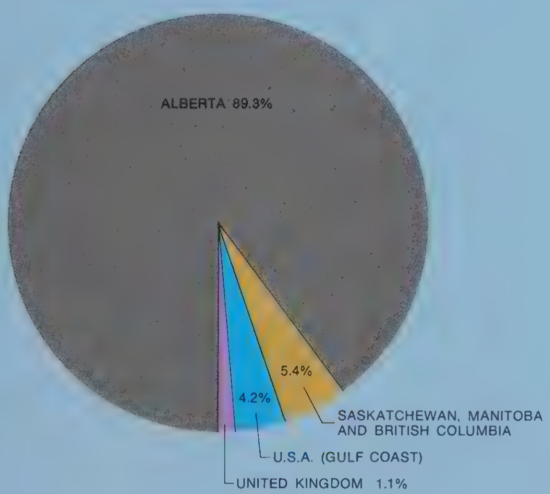
Revenues



Expenditures



Geographical Source of Operating Revenue



1975 Financial Statements

Canadian Superior Oil Ltd.

Consolidated Statement of Income and Retained Earnings

For the Years Ended December 31, 1975 and 1974

	1975	1974
Income		
Operating income, less royalties and mineral taxes	$120,612,455	$ 87,479,268
Interest, dividends and other income	6,615,743	6,938,691
	127,228,198	94,417,959
Expenses		
Operating, administrative and general expenses	17,337,826	14,377,368
Rents of undeveloped properties	2,470,937	2,092,465
Exploration — geological and geophysical	7,161,549	7,028,776
Intangible drilling expenditures	21,725,821	9,637,434
Depreciation	6,530,844	6,020,511
Depletion	992,440	894,414
Leases abandoned	4,609,264	3,866,868
	60,828,681	43,917,836
Income Before Income Taxes	66,399,517	50,500,123
Provision for income taxes		
Current	36,136,463	21,348,370
Deferred	(4,100,000)	(1,404,000)
	32,036,463	19,944,370
Net Income	34,363,054	30,555,753
Retained Earnings at Beginning of Year	102,637,569	72,081,816
Retained Earnings at End of Year	$137,000,623	$102,637,569
Average Shares Outstanding	8,553,311	8,551,403
Net Income Per Share based on average number of shares outstanding	$4.02	$3.57

Canadian Superior Oil Ltd.

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1975 and 1974

	1975	1974
Source of Working Capital		
Net income	$ 34,363,054	$ 30,555,753
Add charges to income not requiring the use of working capital including depreciation, depletion, leases abandoned and deferred income taxes	8,032,548	9,377,793
	42,395,602	39,933,546
Add drilling and exploration expenditures	28,887,370	16,666,210
Working capital provided from operations before drilling and exploration expenditures	71,282,972	56,599,756
Capital stock issued for cash (Note 4)	6,210	156,000
Miscellaneous	186,656	474,710
	71,475,838	57,230,466
Use of Working Capital		
Capital expenditures		
Lease acquisition	9,083,101	12,497,363
Plant and equipment	12,245,511	5,774,506
Exploration — geological and geophysical	7,161,549	7,028,776
Intangible drilling costs	21,725,821	9,637,434
Total capital, drilling and exploration expenditures	50,215,982	34,938,079
Drilling deposit — Beaufort Sea	—	1,532,500
Investment in other companies	2,304,015	488,762
Decrease in prepaid gas revenue	509,155	187,367
Miscellaneous	25,434	241,140
	53,054,586	37,387,848
Increase in Working Capital	18,421,252	19,842,618
Working Capital at Beginning of Year	38,478,876	18,636,258
Working Capital at End of Year	$ 56,900,128	$ 38,478,876
Changes in Components of Working Capital		
Increase (decrease) in current assets		
Cash	$ 553,566	$ (1,015,885)
Short term investments	21,470,888	17,967,880
Accounts receivable	14,384,824	13,151,035
Inventories	2,565,565	4,007,400
Net increase in current assets	38,974,843	34,110,430
Increase in current liabilities		
Accounts payable	15,932,717	9,220,320
Income taxes payable	4,620,874	5,047,492
Net increase in current liabilities	20,553,591	14,267,812
Increase in Working Capital	$ 18,421,252	$ 19,842,618

Canadian Superior Oil Ltd.

Consolidated Balance Sheet at December 31, 1975 and 1974

Assets

	1975	1974
Current Assets		
Cash	$ 1,270,478	$ 716,912
Short term investments, at cost	52,610,716	31,139,828
Accounts receivable	40,320,727	25,935,903
Inventories, at lower of cost or net realizable value		
Sulphur and liquid products	5,215,438	3,682,872
Materials and supplies	3,822,378	2,789,379
	103,239,737	64,264,894
Investments, at cost (Note 2)		
McIntyre Mines Limited (quoted market value 1975 $4,162,922; 1974 $2,562,344)	9,764,713	9,005,499
Falconbridge Nickel Mines Limited (quoted market value 1975 $565,500; 1974 $475,313)	1,729,290	1,729,290
Other investments	5,486,411	4,014,294
	16,980,414	14,749,083
Properties, Plant and Equipment, at cost (Note 1)		
Undeveloped properties	45,493,755	44,080,067
Producing properties	28,784,095	25,725,927
Production equipment	40,905,611	37,675,244
Gas plants and related facilities	64,211,561	59,436,214
Other property and equipment	6,983,265	2,995,191
	186,378,287	169,912,643
Less: Accumulated depreciation and depletion	71,679,049	64,295,498
	114,699,238	105,617,145
Deferred Charges		
Prepaid lease rentals	856,020	924,470
Other	2,505,666	2,411,782
	3,361,686	3,336,252
	$238,281,075	$187,967,374

Liabilities

	1975	1974
Current Liabilities		
Accounts payable	$ 31,663,098	$ 15,730,381
Income taxes payable	14,676,511	10,055,637
	46,339,609	25,786,018
Prepaid Gas Revenue	1,975,818	2,484,972
Deferred Income Taxes	13,248,000	17,348,000
Shareholders' Equity		
Capital stock of $1 par value (Note 4)		
Authorized — 10,000,000 shares		
Issued and outstanding — 8,553,586 shares (1974 — 8,553,286)	8,553,586	8,553,286
Capital in excess of par value	31,163,439	31,157,529
Retained earnings, per accompanying statement	137,000,623	102,637,569
	176,717,648	142,348,384
Commitments and Contingent Liabilities (Note 3)		
	$238,281,075	$187,967,374

Approved by the Board

G. E. Feldmeyer Director

J. Norman Director

Notes to Consolidated Financial Statements

1. Accounting policies:

The consolidated financial statements include the accounts of Canadian Superior Oil Ltd. and its subsidiaries, all of which are wholly owned.

The costs of petroleum and natural gas interests are initially capitalized. Property costs are transferred from undeveloped to producing properties when production commences; costs of properties abandoned are charged against income when the properties are surrendered. Depletion of producing properties is provided by the unit of production method based on estimated recoverable reserves of oil and gas. Accumulated depletion as at December 31, 1975 amounted to $6,654,603 (1974 — $5,664,145).

Exploration expenditures and intangible drilling expenditures applicable to both producing wells and dry holes are charged to income as incurred.

Depreciation is provided by the diminishing balance method at the following rates: —

Production equipment (including casing)	30%
Gas plants and related facilities	10%

The Companies follow the allocation method of accounting for income taxes.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis: —

Current assets and liabilities — at rate of exchange at the year end

Other assets and liabilities — at historical rates of exchange

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

2. Investments:

Investments are carried at cost. At December 31, 1975 the cost of investments with quoted market values exceeded the market value of such investments by $7,594,087 (1974 — $8,397,248). In the opinion of management, such excess of cost over market does not represent a permanent impairment in value and accordingly no write down is required under Canadian generally accepted accounting principles.

In December, 1975 the Financial Accounting Standards Board in the United States issued Statement 12 — "Accounting for Certain Marketable Securities". This statement of accounting standards, which is applicable to U.S. companies, requires that marketable securities be carried at the lower of cost or market. When the securities are classified as non-current assets, changes in market value are to be included in a "valuation allowance" which is recorded in the equity section of the balance sheet when the change is not considered to be a permanent decline.

Had the Companies followed FASB 12, investments would have been reduced by $7,594,087 at December 31, 1975 with a corresponding decrease in shareholders' equity. No charge would be made against earnings.

3. Commitments and contingent liabilities:

The Company has a lease on office premises which expires in 1990 (with an option to renew). Under the terms of the lease, the Company is required to pay an annual net rental of $702,000.

The Company might be required under certain conditions to make payments under guarantee and other contractual arrangements principally in connection with: —

(a) pipe line transportation, and

(b) the issuance to various governments and organizations of non-interest bearing demand promissory notes and letters of credit to be held as work performance deposits in respect of exploratory obligations.

The contingent liability under such arrangements does not exceed $8,000,000.

4. Stock options:

Under the Company's stock option plan, options on 45,000 shares at $20.70 were granted in 1974 to certain officers and key employees of the Company and its subsidiaries, which price was not lower than 90% of the market value on the business day prior to the date of grant. No options were granted in 1975.

During 1975 options on 300 shares were exercised for a cash consideration of $6,210 (1974 — 5,000 shares for a cash consideration of $156,000). As at December 31, 1975 options on 46,230 shares at prices ranging from $20.70 to $28.60 (of which 39,000 were granted to directors and officers) were outstanding, and 51,700 were available for future grants. The outstanding options expire in 1984 except for options on 1,530 shares which expire in 1979.

5. Statutory information:

During 1975 there were fourteen directors, including four past directors. Their total remuneration and directors' fees in their capacities as directors amounted to $46,000 (1974 — nil). There were eleven officers, including one past officer, (six of whom were also directors) whose total remuneration as officers amounted to $781,220 (1974 — $686,515).

Auditors' Report

To the Shareholders of
CANADIAN SUPERIOR OIL LTD.

We have examined the consolidated balance sheet of Canadian Superior Oil Ltd. and its subsidiaries as at December 31, 1975 and 1974 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1975 and 1974 and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

February 13, 1976
CALGARY, Alberta.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Five Year Summary

SUMMARY OF OPERATIONS

	1975	1974	1973	1972	1971
INCOME AND RETAINED EARNINGS (Amounts in thousands of dollars)					
Income					
Operating income	$120,612	$ 87,479	$59,267	$44,563	$40,243
Interest, dividends and other income	6,616	6,939	2,803	1,834	1,816
	127,228	94,418	62,070	46,397	42,059
Expenses					
Operating, administrative and general	17,338	14,377	12,406	10,862	11,750
Interest on long term debt	—	—	—	—	48
Rents of undeveloped leases	2,471	2,093	2,205	2,225	2,298
Exploration expenses	7,162	7,029	5,406	4,430	5,051
Intangible drilling expenditures	21,726	9,637	8,282	7,678	3,361
Leases abandoned	4,609	3,867	2,697	1,093	784
Provision for depreciation, depletion and amortization	7,523	6,915	6,730	6,397	8,696
	60,829	43,918	37,726	32,685	31,988
Income before income taxes	66,399	50,500	24,344	13,712	10,071
Provision for income taxes					
Current	36,136	21,348	11,060	6,315	(264)
Deferred	(4,100)	(1,404)	(2,854)	(1,022)	4,251
	32,036	19,944	8,206	5,293	3,987
Net income	34,363	30,556	16,138	8,419	6,084
Retained earnings at beginning of year	102,638	72,082	55,944	47,525	41,441
Retained earnings at end of year	$137,001	$102,638	$72,082	$55,944	$47,525
Average shares outstanding	8,553,311	8,551,403	8,533,331	8,507,302	8,503,001
Net income per share (in dollars) based on average number of shares outstanding	$4.02	$3.57	$1.89	$0.99	$0.72

OTHER FINANCIAL DATA
(Amounts in thousands of dollars)

	1975	1974	1973	1972	1971
Working capital provided from operations — *before drilling and exploration expenditures*	$ 71,283	$ 56,600	$36,399	$26,995	$28,245
Working capital at year end	$ 56,900	$ 38,479	$18,636	$16,974	$15,761
Expenditures					
Oil and gas properties	$ 9,083	$ 12,497	$ 7,580	$ 7,445	$ 2,447
Plant and equipment	12,245	5,775	5,839	11,074	10,670
Intangible drilling	21,726	9,637	8,282	7,678	3,361
Exploration — geological and geophysical	7,162	7,029	5,406	4,430	5,052
	$ 50,216	$ 34,938	$27,107	$30,627	$21,530
Expenditures incurred outside of Canada included above	$ 27,086	$ 19,762	$12,352	$11,045	$ 2,051

Management's Discussion and Analysis of the Summary of Operations.

1975

Total revenue from all sources reached a record high of $127.2 million. Gross operating income from the sale of petroleum products amounted to $120.6 million, an increase of $33.1 million over 1974. Other non-operating income declined from $6.9 million to $6.6 million. Net income for the year increased to $34.4 million, or $4.02 per share, compared to $30.6 million, or $3.57 per share, in 1974. Cash flow before drilling and exploration expenditures amounted to $71.3 million compared to $56.6 million in 1974. Working capital increased by $18.4 million to $56.9 million at the year end.

The increase in operating revenue during 1975 resulted primarily from improved oil and gas prices, with the greatest impact occurring in the final quarter of 1975. Crude oil and condensate sales for the year declined 9% to 31,437 barrels per day, due essentially to the reduction in exports to the United States. The reduced volume was more than offset by a price increase of $1.50 to $8.00 per barrel effective July 1, 1975, which increased revenue by 13% to $61.3 million. Although natural gas sales volumes increased only four percent during the year, significant price increases, together with rebates on exported gas, accounted for an increase of 120% in revenue from this source. A combination of federal and provincial legislation resulted in Alberta wellhead prices being established at about 75¢ per Mcf effective November 1, 1975. Rebates, as a result of Federal Government action to raise the price of gas exported to the United States, have varied throughout the year, but at year end amounted to an additional 23¢ per Mcf on all Alberta sales. Natural gas sales totalled $45.7 million and accounted for 38% of total operating revenue and is now the Company's major source of income.

Worldwide capital expenditures on properties, plant and equipment amounted to $21.3 million, an increase of $3.1 million over 1974. Exploration and drilling expenditures increased 73% to $28.9 million and represented the most significant increase in charges to income in 1975. Expenditures incurred outside of Canada are summarized in the accompanying table.

Expenditures Incurred Outside of Canada
(Thousands of dollars)

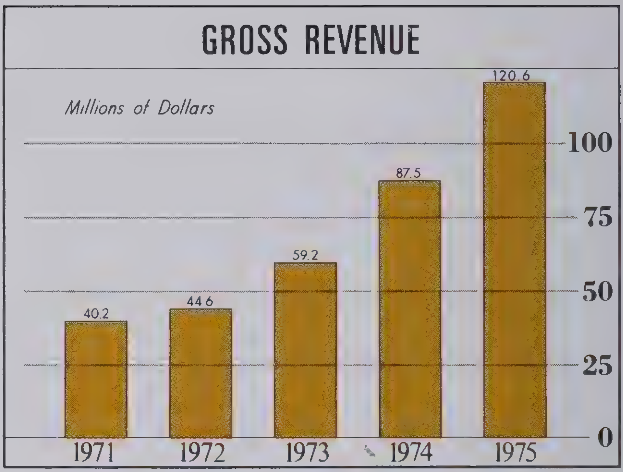
	1975	1974	1973
PETROLEUM			
United States*	$11,853	$ 9,629	$ 7,845
Arabian Gulf			
Abu Dhabi	945	1,402	1,431
Oman	1,216	—	—
Ras Al Khaimah	1,353	185	—
Umm Al-Qaiwain	48	766	—
United Kingdom	2,827	1,425	698
Guatemala	1,533	366	—
Bangladesh	1,458	1,865	39
India	1,303	5	—
Indonesia	1,166	—	148
Papua New Guinea	1,030	44	11
Bolivia	933	—	—
Philippines	56	1,502	628
Other	58	1,890	1,233
	25,779	19,079	12,033
MINERALS			
United States	1,019	402	132
Australia	151	218	156
Ireland	58	43	27
Philippines	51	20	—
Other	28	—	4
	1,307	683	319
	$ 27,086	$19,762	$12,352

* *Includes lease acquisition costs of $6.8 million in 1975, $7.0 million in 1974, $5.4 million in 1973.*

Operating, administrative and general expenses increased 21% to $17.3 million due to the addition of new producing facilities, higher salaries and wages, and general inflationary increases in other costs.

Earned depletion generated by past exploration and development expenditures was fully utilized during the year for income tax purposes. Use of these carry-forwards reduced tax otherwise payable for the year by approximately $3.5 million. Depletion allowance, which must now be earned by Canadian exploration and drilling expenditures, will be significantly less effective in reducing the Company's tax burden.

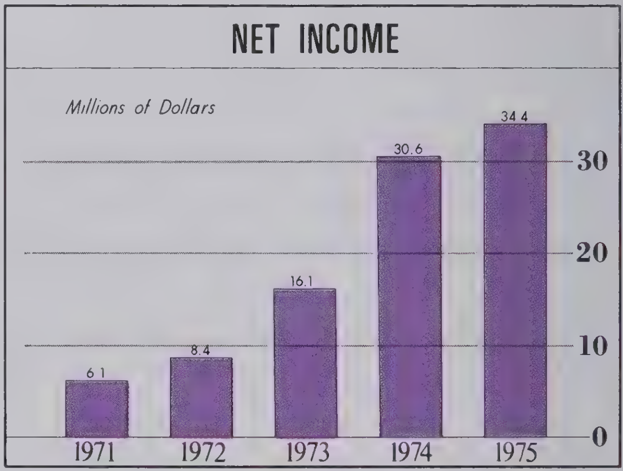
Provision for income taxes increased 61% from \$19.9 million in 1974 to \$32.0 million in 1975. The drawdown of deferred income taxes increased from \$1.4 million in 1974 to \$4.1 million in 1975. This drawdown is the result of timing differences stemming from writing off more in the financial accounts than may be deducted for income tax purposes. Prior to 1972, the reverse situation prevailed when the Company was able to claim more for tax purposes than charged to income in the accounts.



1974

Operating income amounted to \$87.5 million, an increase of \$28.2 million over 1973, due to improved prices of all products. Other non-operating income increased to \$6.9 million from \$2.8 million, due to higher interest earned on short term investments and improved profits on products purchased for resale. Cash flow amounted to \$56.6 million compared to \$36.4 million in 1973. Net income for the year increased 89% to \$30.6 million, or \$3.57 per share, compared to \$16.1 million, or \$1.89 per share in 1973.

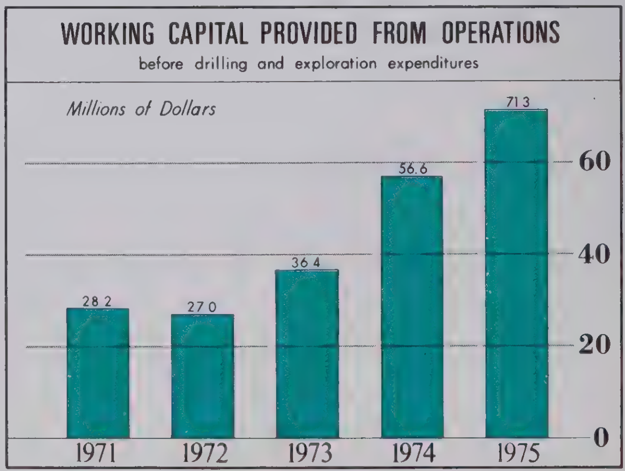
The increase in the provision for income taxes from \$8.2 million in 1973 to \$19.9 million in 1974 was due to higher income and to a change in the Income Tax Act providing that royalties and similar payments to provincial governments be included in taxable income.



Prior Periods

Operating costs in 1971 reflect an adjustment of \$1.3 million charged against income in that year when it was decided to write-off excess sulphur inventories due to a worldwide decline in sulphur prices and a deteriorating offshore market for bulk sulphur.

Exploration and preproduction expenditures incurred prior to August 31, 1958 were capitalized and amortized on a unit of production basis. These expenditures were fully amortized in 1971 by a charge to income of \$3.5 million included in depreciation, depletion and amortization.



Five Year Summary

	1975	1974	1973	1972	1971
MARKET AND DIVIDEND INFORMATION					
Sales price of common stock (per share) — Principal market: Toronto Stock Exchange.					
First quarter — high	**$33**	$60	$58¾	$45⅝	$40½
— low	**20¼**	54½	50¼	40	36⅛
Second quarter — high	**44½**	56	54½	46½	46
— low	**32**	36½	40½	39⅛	38½
Third quarter — high	**44**	41⅞	57¾	51⅜	45¾
— low	**34¼**	26½	47¾	45	41½
Fourth quarter — high	**45**	33¾	60⅜	58	44½
— low	**37**	19½	54	49½	35¾

The Company's shares are also traded on the American Stock Exchange.

Dividends — no dividends have been paid to date.

	1975	1974	1973	1972	1971
Number of shareholders of record	**6,304**	6,609	6,903	7,629	8,392

OPERATING DATA

Wells drilled and completed	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploratory — productive	**34**	**11**	45	12	21	6	24	7	21	4
— abandoned	**54**	**12**	80	17	66	14	78	29	65	17
Development — productive	**77**	**30**	84	15	71	13	40	7	25	4
— abandoned	**14**	**3**	14	1	13	2	8	1	12	—
	179	**56**	223	45	171	35	150	44	123	25

Gross daily sales:	1975	1974	1973	1972	1971
Crude oil (Bbls.)	**24,196**	26,929	28,390	26,134	24,508
Condensate (Bbls.)	**7,241**	7,536	7,755	8,067	7,219
Propane and butane (Bbls.)	**6,144**	5,892	4,692	5,218	4,772
Total oil and gas liquids (Bbls.)	**37,581**	40,357	40,837	39,419	36,499
Residue gas (Mcf)	**240,439**	230,944	221,365	175,836	158,111
Sulphur (Long tons)	**369**	639	622	522	463
Number of Employees	**423**	413	397	386	384

Quarterly Results

The accompanying table compares quarterly operating results for the years 1975 and 1974.

Consolidated net income for the fourth quarter of 1975 amounted to $9.9 million ($1.15 per share) compared to $9.5 million ($1.11 per share) for the fourth quarter of 1974. Cash flow amounted to $22.6 million compared to $16.3 million in 1974.

Gross operating income from the sale of petroleum products amounted to $36.4 million, an increase of $10.6 million over the fourth quarter of 1974, reflecting the effect of price increases, particularly for natural gas.

Intangible drilling costs during the fourth quarter increased from $2.4 million in 1974 to $8.9 million in 1975.

Provision for income taxes amounted to $10.3 million in the fourth quarter of 1975 compared to $6.1 million in 1974; an increase of 68%.

Quarterly Results

(Amounts in thousands of dollars)

	1975	1974
GROSS INCOME		
First Quarter	$ 32,277	$20,922
Second Quarter	26,316	22,703
Third Quarter	30,027	22,741
Fourth Quarter	38,608	28,052
	$127,228	$94,418
EXPLORATION AND DRILLING EXPENSES		
First Quarter	$ 5,804	$ 4,959
Second Quarter	5,936	3,385
Third Quarter	6,218	3,956
Fourth Quarter	10,929	4,366
	$28,887	$16,666
OPERATING, ADMINISTRATIVE AND OTHER EXPENSES		
First Quarter	$ 8,354	$ 5,708
Second Quarter	7,808	6,703
Third Quarter	8,322	6,806
Fourth Quarter	7,457	8,035
	$31,941	$27,252
PROVISION FOR INCOME TAXES		
First Quarter	$ 7,453	$3,637
Second Quarter	6,249	4,948
Third Quarter	7,999	5,218
Fourth Quarter	10,336	6,141
	$32,037	$19,944
NET INCOME		
First Quarter	$10,666	$ 6,618
Second Quarter	6,323	7,667
Third Quarter	7,488	6,761
Fourth Quarter	9,886	9,510
	$34,363	$30,556
EARNINGS PER SHARE (in dollars)		
First Quarter	$1.25	$ .77
Second Quarter	.74	.90
Third Quarter	.88	.79
Fourth Quarter	1.15	1.11
	$4.02	$3.57

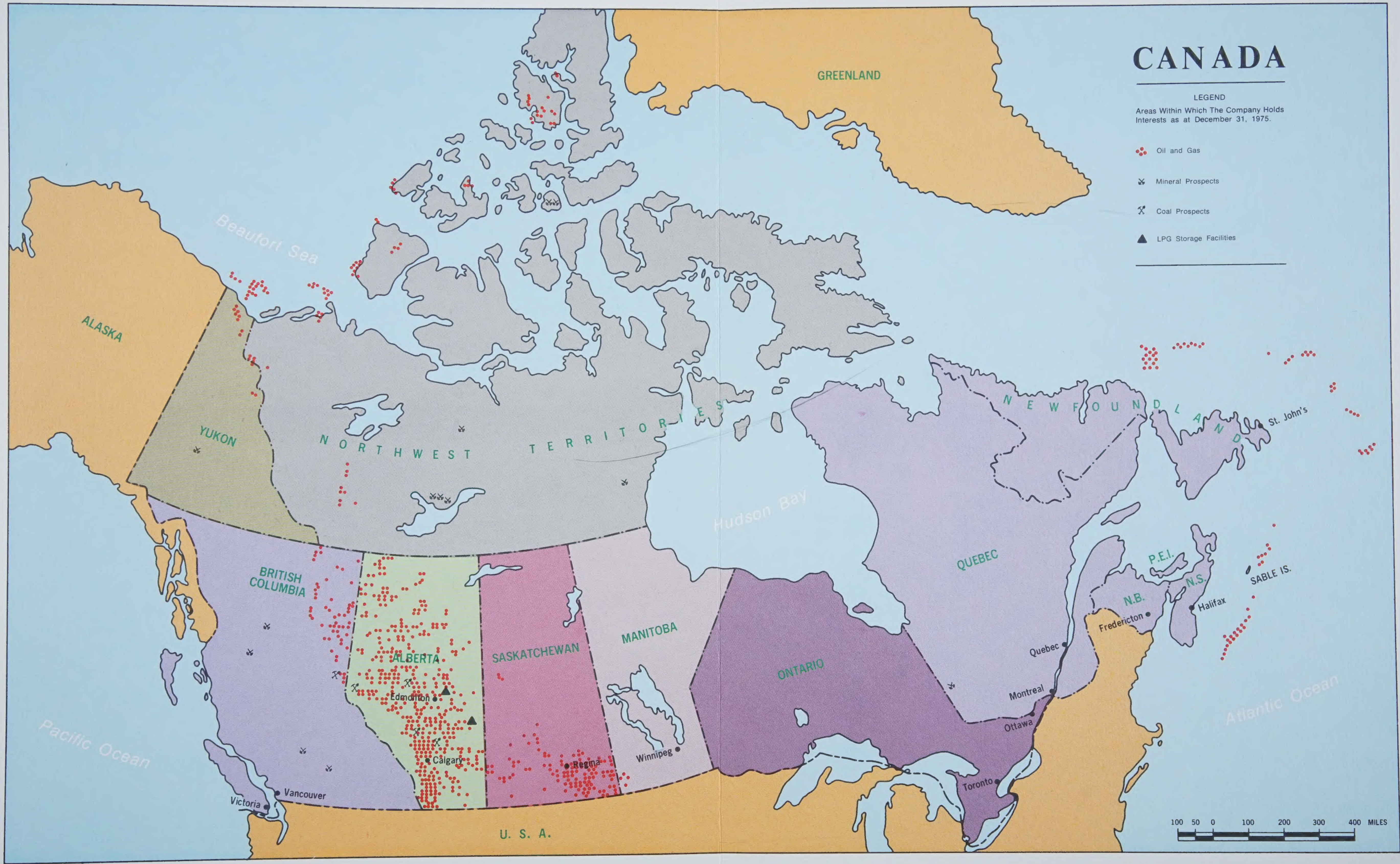
Map of

Canadian Superior's

acreage holdings

in Canada

1975


CANADA
LEGEND
Areas Within Which The Company Holds Interests as at December 31, 1975.
Oil and Gas
Mineral Prospects
Coal Prospects
LPG Storage Facilities
GREENLAND
ALASKA
Beaufort Sea
YUKON
NORTHWEST TERRITORIES
Hudson Bay
NEWFOUNDLAND
St. John's
QUEBEC
P.E.I.
N.S.
N.B.
SABLE IS.
Halifax
Fredericton
Quebec
Montreal
Ottawa
Toronto
ONTARIO
MANITOBA
Winnipeg
SASKATCHEWAN
Regina
ALBERTA
Edmonton
Calgary
BRITISH COLUMBIA
Vancouver
Victoria
Pacific Ocean
Atlantic Ocean
U. S. A.
100 50 0 100 200 300 400 MILES

To The Shareholders:

FINANCIAL

Consolidated net income for the six months ending June 30, 1975 amounted to $17.0 million ($1.99 per share) compared to $14.3 million ($1.67 per share) restated for the same period in 1974. Provision for current and deferred income taxes (up 60%) reflects the impact of the new Federal tax legislation which disallowed the deduction of royalties and like payments retroactive to May 7, 1974. In the corresponding period of 1974, only the months of May and June were affected and have been restated accordingly. Cash flow amounted to $33.2 million compared to $27.1 million, restated for the corresponding period in 1974. Gross revenue from all sources increased 34% to $58.6 million.

Earnings for the three-month period ended June 30, 1975, while down 18% compared with the same period a year ago, dropped 41% compared with the first three months of this year. Cash flow from operations also fell 28% during the comparable period. This is largely a reflection of the continued reduction of crude oil exports during the second quarter and the seasonal decline in gas sales.

Earned depletion generated by past exploration and development expenditures has now been fully utilized for income tax purposes. Use of these carry-forwards reduced tax otherwise payable by approximately $3.5 million during the first half of 1975. Depletion allowance for the balance of the year and in the future will be significantly less effective in helping to reduce the company's tax burden.

In line with the Federal Government's stated policy of a phased adjustment to higher energy prices, the budget of June 23, 1975 provided for crude oil and natural gas price increases. The price of crude oil was increased $1.50 per barrel to an average price of approximately $8.00 per barrel effective July 1, 1975. This crude oil price increase, as it applies to Canadian Superior's Crown production in Alberta, is expected to provide an additional net income of approximately twenty-five cents per barrel. In other producing provinces, it is anticipated the increase will be negligible because of increased royalties and taxes. The majority of the company's oil production is from Alberta and approximately 55% of that is from Crown lands. The remaining 45% is from freehold and grant lands where the net return might be somewhat higher depending on the reserves tax rate set by the Provincial Government.

The Federal Government has stated that the price of natural gas for inter-provincial sales in future will be determined by reference to the city gate price at Toronto. Increased transmission charges and a general lack of information as to how the increase will be effected makes it difficult to ascertain the impact on the Company's revenue. It does appear certain however, that the previously announced arbitration award of $1.15 per Mcf, applicable to 77% of the company's gas sales, will be over-ridden by government action. The border price of Canadian natural gas exported to the United States, currently established by the Federal Government at $1.00 per Mcf, is to be raised to $1.40 August 1, 1975, and $1.60 on November 1, 1975. The government has indicated that the present method of allocating increased revenues obtained from export sales will be changed so that all producers of gas will share in such increases equitably. Currently, your company and many others are being penalized for having dedicated the majority of their gas production to the Canadian market.

The Federal budget of June 23, 1975 also announced changes in the taxation structure for the oil and gas industry to be effective January 1, 1976. While these changes provide a modest incentive for increased exploration spending, the effect on company earnings is expected to be minimal and may, in fact, be less favorable than the tax reduction formerly scheduled to take effect January 1 of next year. The main thrust of the Federal budget had the effect of withdrawing a special abatement of 15 percentage points of Federal tax and providing a deduction of a "resource allowance" of 25% of production profits. This is essentially offset however, by a 44% increase in tax rates from a previously planned 25% rate to a 36% rate of Federal tax effective in 1976.

PRODUCTION

Gross production of crude oil and natural gas liquids averaged 37,235 barrels daily during the six months ended June 30, 1975, a decrease of approximately 12% from the same period a year ago. Crude oil production was down 17%, due primarily to a cutback in export demand. The Federal Government reduced the export tax on crude oil by 80¢ per barrel on June 1 of this year, and it is expected that exports will increase toward the maximum allowable as set by the National Energy Board for the remainder of the year. Condensate sales were also down slightly, whereas propane and butane sales increased marginally.

Consolidated natural gas sales averaged 254 million cubic feet daily during the six-month period, down six million cubic feet daily in Canada but offset by a similar increase from the Gulf Coast area of the United States. Average prices more than doubled compared to a year ago however, and revenue from gas sales increased correspondingly, representing 39% of gross operating revenue.

Sulphur sales, while down 24% in volume to an average of 439 tons daily, recorded a 95% increase in revenue due primarily to improved prices for offshore export sales. The decline in sulphur sales is attributed to a decreased fertilizer demand and the general economic slow-down.

DRILLING AND EXPLORATION

The company participated in the drilling of forty-three exploratory wells during the first six months of 1975, of which fourteen were productive of oil or gas and twenty-nine were abandoned. Thirty-three development wells were drilled during the period, twenty-eight of which were productive of oil or gas. A total of nineteen wells were drilled under farmout agreements at no cost to the company.

Production from shallow gas wells in the Atlee-Buffalo area in south eastern Alberta commenced with the completion of a dehydration compression plant and gathering system. Your company has an 8% interest in these facilities. A multi-well development program on 100% owned lands in this area commenced in late June. On a separate block in the same area, a shallow gas discovery was made and follow-up development drilling is planned.

During the second quarter, drilling continued in the Turin area of southern Alberta where we participated in the drilling of two oil wells, one gas well and one dry hole. Further development drilling is contemplated for this year.

A dual zone gas well in the Farrow area of central Alberta and a Viking gas well in the St. Brides area of northern Alberta were successfully completed. Both wells are wholly-owned and both areas offer opportunity for expansion and development of additional reserves.

In other areas of Alberta, five wells drilled under farmout agreement found gas and are being evaluated at this time. The company's interest varies from 15% to 50%.

Conservation of oilfield gas at Cherhill in central Alberta was initiated in June of this year with the completion of gas plant facilities. The company has a 50% interest in this plant. Canadian Superior is also participating to the extent of 20% in gas conservation facilities presently under construction in the Garrington area in south western Alberta.

A well on Melville Island in the Canadian Arctic, drilled by Pan Arctic under a farmout agreement at no cost to the company, was abandoned in June of 1975.

INTERNATIONAL

Your company has earned a 7½% interest in an offshore permit off the east coast of Oman in return for assuming 12½% of the costs of a well drilled immediately southwest of the island of Masirah in the Arabian Sea. The well is currently at a depth of 10,678 feet and is now testing through casing. Further operations will depend on the results of these tests.

In the Arabian Gulf, offshore drilling equipment is currently being towed from the United States to the waters of the Sheikhdom of Ras Al-Khaima where we will participate in the drilling of a well. Canadian Superior will earn an 8.4375% interest for assuming 14.0625% of the costs of the well. It is anticipated that the well will be spudded in the third quarter.

Detailed seismic programs have recently been conducted in Ras Al-Khaima and also in the neighboring Sheikhdom of Umm Al-Qaiwain where the company holds a 25% interest in the offshore area. Onshore seismic programs are currently underway on both the Altiplano and Tarija permits in Bolivia and in eastern Kenya. The latter program is being conducted under the terms of a farmout agreement at no cost to Canadian Superior. The seismic program, offshore Bangladesh in the Bay of Bengal, is complete and the data is now being analysed with a view to the selection of a drilling location.

In the United Kingdom sector of the North Sea the first exploratory well on Block 21/2 has resulted in a discovery which tested oil at the rate of 5,540 barrels per day. Additional drilling will be required to determine the commercial significance of the discovery. Canadian Superior will earn a 5% interest after all commitments are satisfied. An exploratory test drilled on Block 205/26, (west of the Shetland Islands) in which the company has a 4% interest, was abandoned on July 24, 1975.

A farmout test on Block K-12 (3-1/3% interest) in the Netherlands sector is now drilling at no cost to your company.

At a Federal lease sale held on May 28 in the Gulf of Mexico, Canadian Superior participated in high bids on two parcels. One bid was subsequently rejected by the Government and we were only awarded a lease on Block 119 (West Delta area — offshore Louisiana) in which we hold a 5% interest. A Federal lease sale was held on July 29 and your company, in participation with others, were high bidders on five blocks in offshore Texas and three blocks in offshore Louisiana. The final outcome is still subject to confirmation or rejection by the Federal Government.

Drilling platforms have now been installed on Blocks 110 and A-323 in the High Island Area of Offshore Texas where our interest is 1.5%. Development drilling is now in progress.

The company has entered into an agreement to earn a 50% interest in five quarter blocks (1,440 acres each), located in Texas State waters (Galveston area), for assuming 60% of the cost of a well plus 50% of previous seismic and lease costs. The well is currently drilling on Block 249-L.

Both fields on Blocks 296 and 306 (Eugene Island area — offshore Louisiana) in which the company has a 5% and 5.6% interest respectively are now fully developed. Production facilities are nearing completion on Block 249 (South Marsh Island area) in which we have a 7% interest.

A. E. Feldmeyer

July 30, 1975.
Calgary, Alberta

A. E. FELDMEYER
President

LITHOGRAPHED IN CANADA

CANADIAN SUPERIOR OIL LTD.

File

INTERIM REPORT

FOR SIX MONTHS ENDED JUNE 30, 1975

CANADIAN SUPERIOR OIL LTD. and Subsidiary Companies

Head Office: Three Calgary Place
355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3

Consolidated Statement of Income

	Six Months Ended June 30		Three Months Ended June 30	
	1975	1974	1975	1974
INCOME		Restated (1)		Restated (1)
Gross operating income, less royalties and mineral taxes	$55,547,080	$40,436,743	$25,570,587	$21,259,053
Interest, dividends and other income	3,045,369	3,188,033	745,108	1,443,852
	58,592,449	43,624,776	26,315,695	22,702,905
EXPENSES				
Operating, administrative and general	8,237,896	6,652,953	4,319,512	3,517,241
Rents of undeveloped properties	1,146,809	1,046,831	591,666	506,417
Exploration — geological and geophysical	3,237,061	3,369,013	1,445,549	1,620,950
Intangible drilling expenditures	8,503,294	4,974,598	4,490,747	1,763,621
Depreciation	3,287,047	3,137,308	1,651,221	1,648,871
Depletion	431,315	446,208	204,144	212,320
Leases abandoned	3,058,357	1,127,629	1,041,503	818,458
	27,901,779	20,754,540	13,744,342	10,087,878
INCOME BEFORE INCOME TAXES	30,690,670	22,870,236	12,571,353	12,615,027
Provision for income taxes				
Current	15,966,770	8,865,239	7,464,324	5,081,139
Deferred	(2,265,000)	(280,000)	(1,216,000)	(133,100)
	13,701,770	8,585,239	6,248,324	4,948,039
NET INCOME FOR THE PERIOD	$16,988,900	$14,284,997	$ 6,323,029	$ 7,666,988
Average shares outstanding	8,553,286	8,549,519	8,553,286	8,550,419
Net income per share	$1.99	$1.67	$0.74	$0.90

(1) Income tax restated to reflect retroactive changes to May 6, 1974 in accordance with the Federal Budget of November 18, 1974 together with related provincial changes.

OPERATING RESULTS — Gross Units				
Crude oil and natural gas liquids production — barrels daily	37,235	42,108	35,504	40,145
Natural gas sales — million cubic feet daily	254	254	217	218
Sulphur production — long tons daily	829	826	777	880
Sulphur sales — long tons daily	439	580	464	676

Consolidated Statement of Changes in Financial Position

	Six Months Ended June 30		Three Months Ended June 30	
	1975	1974	1975	1974
SOURCE OF WORKING CAPITAL		Restated (1)		Restated (1)
Net income	$16,988,900	$14,284,997	$ 6,323,029	$ 7,666,988
Add charges to income not requiring the use of working capital including depreciation, depletion, leases abandoned and deferred income taxes	4,511,719	4,431,145	1,680,868	2,546,549
	21,500,619	18,716,142	8,003,897	10,213,537
Add drilling and exploration expenditures	11,740,355	8,343,611	5,936,296	3,384,571
Working capital provided from operation before drilling and exploration expenditures	33,240,974	27,059,753	13,940,193	13,598,108
Capital stock issued for cash	—	68,640	—	37,440
Miscellaneous	33,857	152,390	19,314	101,619
	33,274,831	27,280,783	13,959,507	13,737,167
USE OF WORKING CAPITAL				
Capital expenditures				
Lease acquisition	6,473,189	7,163,370	1,490,780	4,464,336
Plant and equipment	4,681,416	2,040,726	1,847,965	1,107,892
Exploration — geological and geophysical	3,237,061	3,369,013	1,445,549	1,620,950
Intangible drilling costs	8,503,294	4,974,598	4,490,747	1,763,621
Total capital, drilling and exploration expenditures	22,894,960	17,547,707	9,275,041	8,956,799
Investment in other companies	1,434,790	218,147	528,463	105,504
Decrease in prepaid gas revenue	150,282	84,640	84,663	43,656
Miscellaneous	293,905	156,397	10,611	(196,521)
	24,773,937	18,006,891	9,898,778	8,909,438
Increase in Working Capital	$ 8,500,894	$ 9,273,892	$ 4,060,729	$ 4,827,729

MAJOR BALANCE SHEET ITEMS	As at June 30 1975	1974
Current assets	$64,404,085	$40,416,717
Current liabilities	17,424,315	12,506,567
Working capital	46,979,770	27,910,150
Properties, plant and equipment — net	109,961,174	102,671,085
Shareholders' equity	159,337,284	125,990,268

APPROVED ON BEHALF OF THE BOARD:

DIRECTOR DIRECTOR

These statements include all normal adjustments and accruals, but are unaudited.